

**Statement of F. Barton Harvey III  
Chairman and CEO of The Enterprise Foundation  
On the Importance of the GSEs and on  
The “Housing Finance Regulatory Improvement Act” (H.R. 3703)**

**For the Subcommittee on  
Capital Markets, Securities and Government Sponsored Enterprises  
Committee on Banking  
House of Representatives  
August 25, 2000**

## **Executive Summary**

The Enterprise Foundation appreciates this opportunity to comment on the importance of Fannie Mae, Freddie Mac and the Federal Home Loan Bank (FHLB) System (collectively, “the GSEs”) and on the “Housing Finance Regulatory Improvement Act” (H.R. 3703).

Enterprise is a national nonprofit organization founded in 1982 by Jim and Patty Rouse. Our mission is to see that all low-income Americans have access to fit and affordable housing and the opportunity to move up and out of poverty into the mainstream of American life. In carrying out its mission, Enterprise has worked in productive partnerships with the GSEs that have directly resulted in affordable housing for many thousands of low-income families and individuals.

Our stake in any legislation affecting the GSEs is the degree to which it would impact poor people and distressed neighborhoods. We are very concerned that proposals contained in H.R. 3703 would impede the GSEs’ abilities to meet their vital obligations to expand affordable housing opportunity for low-income and minority families and in underserved communities.

For example, H.R. 3703 would repeal the Treasury Department’s authority to purchase \$2.25 billion of Fannie Mae and Freddie Mac securities and \$4 billion in FHLB System obligations. This authority helps the GSEs save money when they raise capital. The GSEs pass on the savings to consumers in the form of lower mortgage interest rates. Lower rates make mortgage credit more affordable, especially to low-income borrowers. Repealing Treasury’s authority to purchase GSE obligations would raise the cost of homeownership, which would hit low-income borrowers hardest.

H.R. 3703 also would create a single regulatory board to review any new GSE initiative. Such a cumbersome process would prevent the GSEs from responding quickly to sudden changes in the mortgage markets, such as rising interest rates, which often have the most adverse affects on low-income families. It also would stifle the GSEs’ ability and incentive to innovate by making public otherwise proprietary programs and products, which often benefit low-income and minority borrowers most.

We wonder what problem H.R. 3703 is trying to fix. Our nation’s housing finance system is the best in the world, for both consumers and investors. The national homeownership rate is at an all-time high. More working families and minorities than ever are sharing in the American Dream. The GSEs are a big part of this success story. By all analyses, they are financially sound and well managed. They are subject to rigorous safety, soundness and public purpose mission regulations.

Much more remains to be done to expand affordable housing opportunity for low-income and minority families and in underserved communities. The GSEs are committed to doing their part. Changes to the federal government’s oversight and regulation of them contained in H.R. 3703 threaten to impede their promise of future progress.

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**Introduction**

The Enterprise Foundation appreciates this opportunity to comment on the importance of Fannie Mae, Freddie Mac and the Federal Home Loan Bank (FHLB) System (collectively, “the GSEs”) and on the “Housing Finance Regulatory Improvement Act” (H.R. 3703).

The GSEs play a vital and indispensable role in the nation’s housing finance system. Their importance in helping expand low-income and minority Americans’ access to that system cannot be overstated. They have contributed mightily to increasing homeownership and affordable rental housing for working families and minorities and in underserved communities across the country.

Our stake in any legislation affecting the GSEs is the degree to which it would impact poor people and distressed neighborhoods. We are very concerned that proposed changes to the federal government’s oversight and regulation of the GSEs contained in H.R. 3703 would impede their abilities to meet their vital public purpose missions.

The Enterprise Foundation is a national nonprofit organization founded in 1982 by Jim and Patty Rouse. Our mission is to see that all low-income Americans have access to fit and affordable housing and the opportunity to move up and out of poverty into the mainstream of American life.

Working with public and private partners, including the GSEs, the Foundation provides low-income people with decent, affordable homes, safer streets and access to jobs and child care. We have raised and invested more than \$3.4 billion in loans, grants and equity to build or renovate 107,000 apartments and houses. In addition, we have placed more than 31,000 people in permanent, full-time jobs. The Enterprise Foundation Network includes more than 1,500 nonprofit community-based groups in 550 locations across the country.

## **The Enterprise Foundation's Productive Partnerships With Fannie Mae and Freddie Mac**

Enterprise has worked in productive partnerships with Fannie Mae and Freddie Mac that have directly resulted in affordable housing for many thousands of low-income families and individuals. Consider our work together using the Low Income Housing Tax Credit (Housing Credit). Fannie Mae was one of the first institutions to invest in the Credit, in 1987. Fannie Mae's involvement sent a strong signal to the marketplace that the Credit was a sound investment and enabled Enterprise to attract other corporate partners, greatly expanding our ability to finance affordable housing. Fannie Mae is now the largest Housing Credit investor in the country.

Freddie Mac joined Fannie Mae several years later in helping to expand the market of Housing Credit investors by making matching pledges for state and local Housing Credit investment. Fannie Mae started the first national Housing Credit equity fund for homeless housing, Corporate Housing Initiatives, in which Freddie Mac was the other key investor. Since those early years of the Credit's history, Fannie Mae and Freddie Mac have been leaders and innovators in the Housing Credit industry, pioneering new products and best practices in financing Housing Credit developments.

Fannie Mae and Freddie Mac also have been leaders in the creation of innovative lending programs to finance affordable housing, often in collaboration with Enterprise. For example, Fannie Mae and Enterprise created a \$150 million lending program, Enterprise Mortgage Investments (EMI), that offers developers permanent financing primarily on small Housing Credit developments. Enterprise formed EMI to serve as a community lender and provide this mortgage financing for affordable multifamily housing developments nationwide. EMI is a Special Fannie Mae lender with fully delegated underwriting and servicing authority.

Enterprise has actively encouraged Fannie Mae and Freddie Mac to devote more resources to affordable housing. We have strongly encouraged the Department of Housing and Urban Development (HUD) to provide stretch Affordable Housing Goals for them. We are very pleased that Fannie Mae and Freddie Mac have affirmatively embraced HUD's proposed new Affordable Housing Goal levels, which would require them to significantly increase their lending to low-income people and in underserved communities. We have urged HUD to provide Fannie Mae and Freddie Mac maximum flexibility to innovate in order to meet the proposed new Goal levels.

Fannie Mae and Freddie Mac also have moved aggressively to combat predatory lending practices, which disproportionately plague low-income and minority communities. Fannie Mae has promulgated guidelines to its lender partners discouraging steering, equity stripping, excessive fees and prepayment penalties. Freddie Mac has issued a ban on purchasing mortgages with single-premium credit insurance policies and required all lenders to report borrower mortgage payments to all three credit repositories. Both companies have pledged further action on predatory lending.

We strongly believe that the interests of affordable housing and safety and soundness are very compatible; the miniscule default rate in our multi-billion dollar multifamily housing portfolio bears this out. We are, however, very concerned that the Office of Federal Housing Enterprise Oversight's (OFHEO's) proposed Risk-Based Capital regulation for Fannie Mae and Freddie Mac could curtail their affordable housing activities at the very time HUD is proposing to increase them through its proposed Affordable Housing Goals regulation. We sincerely hope that OFHEO and HUD will work together to rectify this apparent contradiction in promulgating final Risk-Based Capital and Affordable Housing Goals regulations later this year.

### **The Importance of the Federal Home Loan Bank System To Nonprofit Community Development Organizations**

The FHLB System provides essential capital to community-based organizations to rebuild their neighborhoods. The System's Affordable Housing Program (AHP), for example, has provided nearly \$1 billion in investment to develop more than 235,000 affordable homes and apartments for low- and moderate income families and individuals. The Enterprise Foundation often assists community-based groups in accessing AHP funds because they provide flexible financing that makes difficult developments possible. Applying for AHP funds also allows community groups to develop and cultivate relationships with local lenders that often lead to other partnerships.

The FHLB System's Community Investment Program (CIP) is another important tool in our arsenal to turn around neglected neighborhoods. The System has provided more than \$22 billion in CIP funds for 500,000 homes and apartments and 700 economic development projects.

Community Investment Cash Advances, Letters of Credit and Small Business Investment Corporations are other key System programs for community development. Finally, individual member Banks have developed pilot programs to increase community development in their regions of the country. We commend the Banks and former Federal Housing Finance Board Chairman Morrison for their willingness to develop such pilot programs to help address credit gaps in the marketplace.

### **H.R. 3703 Would Impede the GSEs' Abilities To Serve Low-Income Borrowers and Communities**

The GSEs play a vital role in the nation's housing finance system by helping expand housing opportunity for low-income and minority borrowers. We are very concerned that proposals contained in H.R. 3703 would impede the GSE's abilities to achieve this vital public purpose.

For example, H.R. 3703 would repeal the Treasury Department's authority to purchase \$2.25 billion of Fannie Mae and Freddie Mac securities and \$4 billion in FHLB

System obligations. This authority helps the GSEs save money when they raise capital. The GSEs pass on the savings to consumers in the form of lower mortgage interest rates. Lower rates make mortgage credit more affordable, especially to low-income borrowers. Repealing Treasury's authority to purchase GSE obligations would raise the cost of homeownership, which would hit low-income borrowers hardest.

H.R. 3703 also would create a single regulatory board to review any new GSE initiative. This process, which would include public notice and comment, would be slow and cumbersome. It would prevent the GSEs from responding quickly to sudden changes in the mortgage markets, such as rising interest rates, which often have the most adverse effects on low-income families. It also would stifle the GSEs' ability and incentive to innovate by making public otherwise proprietary programs and products. Again, low-income families and neighborhoods would be impacted most, as they most often benefit from special GSE initiatives.

We wonder what problem H.R. 3703 is trying to fix. Our nation's housing finance system is the best in the world, for both consumers and investors. The national homeownership rate is at an all-time high. More working families and minorities than ever are sharing in the American Dream. The GSEs are a big part of this success story. By all analyses, they are financially sound and well managed. They are subject to rigorous safety, soundness and public purpose mission regulations. Much more remains to be done to expand housing opportunity for low-income and minority families and in underserved communities. The GSEs are committed to doing their part. Changes to the federal government's oversight and regulation of them contained in H.R. 3703 threaten to impede their promise of future progress.